

# **Economic Reforms and Sustainable Growth in Sub-Saharan Africa**

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and Media Representatives at UN Headquarters, New York**

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by

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## **Introduction**

Mr. Chairman, Ladies and Gentlemen:

I would like to thank you for inviting me here today to exchange views on Africa's development prospects. I appreciate the opportunity to share with you the World Bank's perspective on what is happening in Africa and to learn how you view the situation and how you think we can improve our work in the region. I am truly pleased to be among a group of fellow development enthusiasts who believe in dialogue and who are committed to working towards a better future for Africa.

First, I would like you to know that I am bullish on Africa. Anything I can do, as an individual and as an international civil servant, to help Africa achieve equitable and sustainable development, I will do. My commitment stems from both personal experience and working on development at the World Bank for almost three decades.

## **Africa's Crisis and Background to Reforms**

Mr. Chairman, Africa's development challenges may be daunting, but they are not insurmountable and this is not a time for pessimism. Before we examine the economic reform process aimed at bringing about sustainable growth, we need to understand the background to the current crisis.

First, we all know that the oil shocks of the 1970s had a devastating impact on developing countries. Sub-Saharan Africa was particularly vulnerable to those shocks.

Second, Africa's basic economic structures and capacities were weaker than those of other regions: it had no industrial base; its management capacity was

extremely thin; its infrastructure was meager and aging; and it was rapidly losing its competitiveness to other developing regions.

Third, Africa's external problems were compounded by misguided policies on the part of African governments:

- Exchange rates were grossly overvalued.
- Exports were excessively taxed.
- Price controls and subsidies were rampant.
- The state interfered in commerce and trade; and
- Revenues from the commodity price booms of the 1970s were poorly managed.

Agriculture — the most important sector of most African economies, and the sector in which most of Africa's people are working — provides a graphic example of what went wrong. In 1960, Africa was a net food exporter and until 1970 the continent was self-sufficient in food. But in the 1970s and 80s, food production in the region increased at only half the rate of population growth. Farmers were tremendously disadvantaged by inefficient state marketing boards and by policies that kept prices artificially low. Without adequate incentives, many farmers decided not to produce food beyond their own immediate needs.

By the middle of the 1980s, the picture in Africa was dismal. The region's economic crisis and its failure to adjust to global and domestic realities had taken a severe toll. Not only did food production fall, but per capita incomes declined; investment in productive sectors and services fell; and population growth continued at an unprecedented rate, imposing heavy social costs.

### **Response to the Crisis: Reaching a Consensus**

Given the magnitude of the crisis, African countries had no choice but to take an honest, practical look at their situation and take bold action. In May 1986, at the UN Special Session, African leaders made the critical commitment to take responsibility for their own economic management and undertake necessary reform programs. It was a turning point in the struggle to overcome the crisis. Since then the majority of countries have chosen to make the adjustments to get their economies back on track.

First, a consensus was reached in African countries, with the World Bank and other organizations contributing to the dialogue, on the imperative of economic reforms. Second, consensus emerged in the donor community that adjustment was necessary as it became clear that investment projects were going nowhere in the bad policy environment which prevailed. The Bank and other development agencies have husbanded a common understanding of priorities through Consultative Group meetings and other fora. Third, African countries and donors agreed on the necessity of reforms and how they would be funded.

The effort has not been easy. In some countries the reforms have been delayed, stopped, then begun again as leadership wavered. But this is all part of the process. Determination and perseverance are required.

### **The Content of Structural Adjustment**

There is a great deal of confusion about what IMF and World Bank economic reform programs are and what they are designed to accomplish. There should be no doubt that these programs are meant to promote sustainable growth. There should also be no doubt that their social impact must be taken into account.

Stabilization — usually associated with the IMF — is concerned with the overall level of spending, exchange rates and inflation. Stabilization policies are designed to reduce demand in the short term.

Structural adjustment — usually associated with the World Bank - is concerned with the implementation of policies which will remove economic distortions that hold back production. Structural adjustment policies are designed to stimulate supply.

African economies that had ground to a halt — where farmers were not planting, factories were not producing and salaries were not being paid — needed drastic measures to get them functioning again.

The focus and immediate objectives of reforms have usually included:

- Allowing the exchange rate to attain its realistic level in relation to other currencies in order correct distortions in the allocation of resources.
- Increasing agricultural incentives so that farmers receive a fair price for their product.

- Liberalizing foreign trade to help increase exports and allow local producers to import raw materials, inputs, equipment and machinery and therefore produce more.
- Reforming domestic markets to eliminate monopolies and increase competition.
- Improving the efficiency of the public sector.
- Eliminating untargeted subsidies where possible in order to remove inefficiencies and reduce the burden on government budgets.

Stabilization and structural adjustment policies follow a common logic: stabilization restores domestic supply with respect to demand and adjustment removes the inefficiencies that have kept production depressed. Both policies are aimed at directing resources more efficiently and accelerating sustainable growth.

### **Resources for Reforms**

As you know, these programs need significant additional funding for successful implementation. Some of these extra resources have been provided by the World Bank, but many other donors have also been involved, including bilateral donors, the African Development Bank and the UNDP on the technical assistance side. In 1987, when it became obvious that programs might fail because of insufficient resources, the donor community, led by the World Bank, established the Special Program of Assistance (SPA) for the low-income, debt-distressed African countries which were undertaking adjustment.

The forum has been extremely successful in three important areas:

- It has catalyzed additional flows of resources to the poorest African countries in adjustment. Since the beginning of the SPA, no adjustment program has floundered because of underfunding.
- The SPA has provided a forum to assess and recommend debt-relief measures.
- The SPA has also helped coordinate donor involvement in the adjustment process so that countries have not had to suffer a multiplicity of advice and conditionalities.

In the first three-year phase of the SPA, about \$6 billion in adjustment assistance and about \$12 billion in debt relief was mobilized for twenty-three reforming countries. In the second phase from 1991 to 1993, some 26 African countries are now eligible for assistance. About \$7.4 billion in adjustment assistance has been pledged for the three-year period with donors being urged to increase that amount to offset the effects of the drought in Southern Africa. Increased debt relief is also being sought.

## **Results of Reform**

But, the most important question is have these policies worked?

The Bank has been supporting adjustment programs in many countries over the years and has carried out a number of evaluations of adjustment operations. The main findings are:

- That the countries that have adopted adjustment programs have, on average, performed better and grown faster than other countries.
- That central government spending on social programs like education, health etc. has not declined on average in the countries pursuing intensive adjustment.
- And that projects implemented in an undistorted policy climate had, on average, a significantly higher rate of return than those in a distorted climate. In other words, an agricultural project undertaken in an adjusting economy had a much greater chance of success.

We have also learned that economic reforms cannot solve Africa's problems overnight. Progress will not be easy or quick. Changing the structure of an economy is a long-term process and patience and determination are prerequisites for success. In addition, the success of the programs may be affected by external shocks such as changes in the price of oil, global economic prospects and even variable weather patterns. We should recognize that the adverse impact of declining terms of trade and the burden of external debt have been more severely felt in Sub-Saharan Africa than in other developing countries.

The recession in the OECD countries has taken a heavy toll on developing countries as a group in 1991 and 1992 and per capita incomes declined for the first time after two decades; African countries were no exception and suffered the toll of recession last year and this year. The situation this year has been aggravated in the Southern Africa sub-region by extreme drought.

## The Impact of Adjustment on the Poor

There has been, of course, a great deal of concern about how economic reform policies affect the poor. In the long term, reform measures will succeed in stimulating economic growth and the poor will gain from the opportunities available in a more vibrant economy. In the short term, the impact of adjustment policies depends on whether the poor are net producers of tradables since adjustment tends to raise relative prices, wages and employment for this group.

Let us take an important example: the removal of food subsidies. Most of the poor in Africa are smallholder farmers who live in rural areas. The rural poor comprise 80 to 96 percent of Africa's poor in some countries. Smallholder farmers react quickly to price incentives. If they do not receive what they consider a fair price for their crops, they stop growing them. Adjustment policies which remove consumer food subsidies and work to eliminate marketing monopolies increase the price of locally produced food which in turn increases income for smallholder farmers, making them among the major beneficiaries of this kind of adjustment.

With the removal of subsidies, farmers also tend to produce more food as well as more export crops. In Ghana, cocoa exports doubled in six years. In Guinea, exports increased dramatically, having all but ceased previously. In Nigeria there has been a dramatic increase in food production. In addition, because the rural poor tend to consume their own produce rather than buy their food at markets, the removal of subsidies on food prices does not unduly affect them. The increase in producer prices of food and export crops resulting from policy reforms thus provides strong incentives for increased output and higher incomes for the rural poor.

The minority urban population is affected by the rise in the price of food. This group includes the urban middle class, civil servants and the army who have been benefiting all along from the distorted price structure. Unfortunately, this group also includes the urban poor - mostly self-employed informal sector workers and minimum wage earners. Their proportion of the total number of poor ranges between 4 and 20 percent, and under such a policy change, they would be our biggest worry. Regardless of how the poor as a group fare in the face of adjustment, the urban poor are affected by the short-term impact of adjustment including job loss and higher prices. The Bank and other agencies, therefore, recognize the need for adjustment programs to include public spending and other measures to protect the most vulnerable.

The key question is, however, would adjusting countries, and the poor themselves, have been better off without adjustment in the long run? Clearly, the answer is no. Tanzania and Ghana, before they undertook adjustment, are examples of how

bad things were in some African countries before reforms were implemented. Exports were discouraged, food production for market had come to a virtual halt and imports were rationed. The urban and rural poor both suffered miserably during years of drastic economic decline. But with economic reforms their welfare has begun to improve.

### **Looking Ahead: Agenda for the 1990s**

How can we best assist Africa in the years ahead?

There is no doubt in my mind that we are on the right path for the net result of economic growth through adjustment should be poverty alleviation. The strategic agenda has, by consensus, been set. We have reached a point where the major strategies and mechanisms for achieving Africa's development have been put in place. It is now important to strengthen them and make them work with maximum efficiency.

- We should continue to encourage economic reforms that stimulate growth and encourage people and companies to be productive and efficient.
- We should continue to focus on developing the human and institutional capacities that Africa lacks.
- We should continue to pay special attention to boosting agricultural productivity, reducing population growth rates and protecting the environment.
- Finally, we should continue to encourage private sector activity in Africa, domestic and foreign, including small and microenterprise development.

Africa's potential has only begun to be tapped. It is a continent with enormous human capacity - capacity that is often wasted because of inadequate education, health care and policy measures which stifle entrepreneurship.

### **Conclusion: An Emerging Partnership**

In this room today we have representatives of many sister organizations of the World Bank and I am pleased to address you all at this critical juncture. Africa needs us now more than ever.

Each organization has an important role to play in assisting with the continent's development. We can all benefit from exchanging views, sharing opinions and working towards consensus on the opportunities to shape Africa's future.

As you know, one framework for building consensus is the Global Coalition for Africa (GCA). The coalition has begun its efforts to bring together political leaders and experts from Africa and the donor community on a regular basis to help build international support for Africa, to monitor progress and develop new ideas. This is an important step forward because it is the one forum which assembles African and donor expertise in a non-negotiating setting. I would hope that in the future, more of our work will be characterized by this kind of partnership. African countries are in the process of expanding their capacity to analyze policy issues and manage their economies. The initiatives in Africa are and will continue to be less donor-driven as a result and that is the way it should be.

Mr. Chairman, in conclusion, I would like to stress once again the positive results beginning to emerge from Africa and emphasize that they reflect an important partnership among donors and the African countries. The task for the 1990s is to sustain and build on the progress that is well underway. Thank you.